

Financial **EXCHANGE**

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Time to Think About Charitable Donations

Part of the estate plan may include making charitable donations. Not only do donations give the satisfaction of contributing to worthy causes, they also provide tax relief whether the donation is made while the Individual is alive or through a Will.

Eligible Charities

Although saving money on tax may not be the primary incentive to contribute to a particular cause, your parents will want to be confident that the intended recipients of any donation will actually benefit. Unfortunately, various schemes have been created that appear to represent legitimate

charities but are in fact fraudulent. The Canada Revenue Agency does provide a listing of eligible charities on its website www.cra-arc.gc.ca.

The Charitable Donation Tax Credit

The charitable donation tax credit has two levels as well as maximums allowed in a particular tax year. The first \$200 of eligible donations will reduce tax payable at a rate of 15% of the donation amount. Any amount donated over the first \$200 per year reduces tax payable at a rate of 29%. The amount of credits claimed can generally not exceed

75% of net income in the year the credit is being claimed. The credits cannot be carried forward but the donation itself can be spread out over up to five years. Please speak to your accountant for more details.

Making a Charitable Donation

There are different ways to make charitable donations which will have different tax/financial effects. For example, your parents can donate to an eligible charity or to the government. Cash, life insurance or property can be donated. Property can include gifts of eligible securities. If your par-

ents donate securities (such as stocks or bonds), they will receive a tax credit for the fair market value of the donation and they do not have to pay capital gains tax on any increase in value from when the securities were bought to when they were donated. This is clearly preferable to selling the security and donating the cash since capital gains taxes would have to be paid.

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Fortes fortuna adiuvat

In the current market climate, volatility is the name of the game. Markets can be sharply down one day, with pessimism over the North American economy and the expanding debt crisis in Europe. The next day could be a very strong one, with markets climbing by 2% to 3% in just one day. While the problems in Europe are very real and need to be addressed immediately, there will be a resolution, one way or another. Throughout the last 60 years, our economy has endured events such as the Arab Oil Embargo; rapid run-ups of inflation and interest rates; government dealing with

large budget deficits, the bursting of the tech bubble and a banking crisis.

Throughout all this, markets have continued a long-term upward trend. Why? Because over the long-term; the performance of a stock is a more accurate reflection of the value of the company. In the short term, individual stocks and markets are much more susceptible to the emotions (fear and greed) of investors. Greece unemployment is up, investors are scared and markets drop. Germany & France agree to some bailout money, investors are cheerful and markets go up. Do

these events mean that the value of a major Canadian bank is actually 3% lower or higher than the day before? Probably not, but that doesn't prevent the stock in question from fluctuating that much in a day.

What is important is constructing a portfolio that is suitable to your needs and comfort level. If the volatility of the markets is causing you a lot of worry, then maybe you need to adjust your portfolio. If you are looking for income, there are products available that provide steady income; you don't need to care if RIM missed its latest quarterly earnings and then

dropped 10% that day. However, if you have a long-time horizon and can tolerate a high level of risk; now may be an excellent time to take advantage of stocks that are down in price for reasons that have very little to do with their outlook. There is currently a lot of fear in the markets; we would be wise to recall Warren Buffets' advice: "Be fearful when others are greedy and greedy when others are fearful."

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For those of us who have not recently brushed up on their Latin; the title of this article translates as "Fortune favours the bold". I should probably add a little caveat to this statement. I am not advising anyone to rush out and take excessive risks. In fact, for a lot of investors, the best course of action may be to take no action at all.